

Message Text

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ACTION EB-04

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INFO AMEMBASSY BONN

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USMISSION EC BRUSSELS

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AMCONSUL ZURICH

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LIMDIS--GREENBACK

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, SZ

SUBJ: INTERNATIONAL FINANCIAL SITUATION

1. PRESSURES FROM SWISS EXPORT INDUSTRIES FOR ACTIONS TO IMPROVE THEIR COMPETITIVE POSITION SUBSIDED OVER PAST TWO MONTHS WITH CALMER FOREIGN EXCHANGE MARKETS AND SLIGHT WEAKENING OF SWISS FRANC AGAINST MAJOR TRADING CURRENCIES. INTRODUCTION OF SUCH MEASURES AS EXPANDED EXPORT RISK COVERAGE, FAVORABLE EXPORT REDISCOUNT FACILITIES, REQUIREMENT THAT BANKS BALANCE THEIR FOREIGN EXCHANGE POSITIONS IN EACH CURRENCY DAILY, CENTRAL BANK MARKET INTERVENTION, ETC. HAVE ALL HELPED ALTHOUGH INTEREST RATE DIFFERENTIALS AND OTHER NON-SWISS FACTORS ARE REALISTICALLY SEEN TO BE DETERMINING. PRESSURES FROM EXPORTERS COULD QUICKLY BE STIRRED UP AGAIN AND

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WILL CONTINUE TO REQUIRE DEFT HANDLING BY GOS AND SWISS

NATIONAL BANK (SNB).

2. IN MAY 14 CONVERSATION WITH CONSUL GENERAL ZURICH AND EMBASSY E/C COUNSELOR, SNB PRESIDENT LEUTWILER AND DIRECTOR LADEMANN ATTRIBUTED RENEWED SF STRENGTH EARLIER THIS WEEK TO POUND STERLING WEAKNESS AND WITHDRAWALS FROM LONDON BY OIL PRODUCERS AND SOME US-INTERESTS WHO THEN SOUGHT REFUGE IN STRONGER EUROPEAN CURRENCIES RATHER THAN IN NEW YORK OR EURODOLLARS. MOVEMENTS INTO SWISS FRANCS GOING PRIMARILY INTO EUROSCHWITZER DEPOSITS AND TO LESSER EXTENT SWISS STOCK AND BOND PURCHASES. LEUTWILER RECALLED HIS RECENT VISIT TO SAUDI ARABIA ALONG WITH DIVISION OF COMMERCE DIRECTOR JOLLES (BERN 1716) AND HIS SATISFACTION ON UNDERSTANDINGS REACHED WITH SAMA ON FUND MOVEMENTS INTO SWISS FRANCS. HE INDICATED HE WOULD SHORTLY BE MAKING VISITS TO OTHER OIL PRODUCERS WITH SIMILAR OBJECTIVE ALTHOUGH HE ACKNOWLEDGED THAT AMOUNTS OF ACCUMULATED SURPLUSES SEEMED NOW TO BE MORE MANAGEABLE.

3. ZURICH SF/\$ RATE MOVED FROM HIGH OF 2.4375 ON MAY 14 TO LOW OF 2.5140 MAY 15. IN CONNECTION SWISS CONSIDERATION OF POSSIBLE LINK WITH SNAKE (SEPTIL), LEUTWILER INDICATED MAIN OBJECTIVE WOULD BE GREATER STABILITY AND SOME EFFORT DAMPEN SUCH WIDE AND ABRUPT SWINGS. HE ALSO INDICATED THAT SF/DM CROSS-RATE CONTINUES TO BE WATCHED VERY CLOSELY AND RECENT SF STRENGTHENING INTO 1.05 RANGE WAS OF CONCERN.

4. LEUTWILER SAID HE COULD READILY UNDERSTAND HOW EXCHANGE MARKET CONSIDERATIONS LOOKED DIFFERENTLY IN ZURICH THAN FROM WASHINGTON OR NEW YORK. HE ALSO APPRECIATED LONDON ARRANGEMENT REACHED SOME MONTHS AGO WITH FEDERAL RESERVE AND BUNDESBANK. BUT GIVEN KEY ROLE OF PSYCHOLOGY IN FOREIGN EXCHANGE MARKETS HE THOUGHT ONE OF MOST HELPFUL ELEMENTS IN CURRENT ATMOSPHERE WOULD BE IF SENIOR US OFFICIAL, IF POSSIBLE TREASURY OFFICIAL, COULD INDICATE PUBLICLY THAT USG DID NOT NECESSARILY WANT TO SEE EVEN WEAKER DOLLAR BECAUSE OF EFFECTS ON IMPORTS, DAMAGE TO WORLD PAYMENTS SYSTEM, FURTHER EROSION OF CONFIDENCE IN US, ETC. HE NOTED THAT SUCH STATEMENTS EARLIER THIS LIMITED OFFICIAL USE

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YEAR HAD HAD HELPFUL CALMING EFFECT ON MARKETS BUT HAD BY NOW BEEN LARGELY FORGOTTEN.

5. LEUTWILER SAID HE THOUGHT ANOTHER US ACTION WHICH WOULD BE HELPFUL AND IN THE COMMON INTEREST WOULD BE IF THE US WERE TO SELL INTO MAJOR MARKETS, SUCH AS ZURICH, MODEST AMOUNTS OF ITS GOLD THROUGH MEDIUM OF CERTAIN EUROPEAN CENTRAL BANKS AGAINST SUCH HARD CURRENCIES AS DM, SF, AND GUILDERS. SNB OFFICIALS

NOTED THIS SUGGESTION HAD BEEN MENTIONED PREVIOUSLY
AND THEY THOUGHT IT WAS STILL WORTHY OF CONSIDERATION.
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